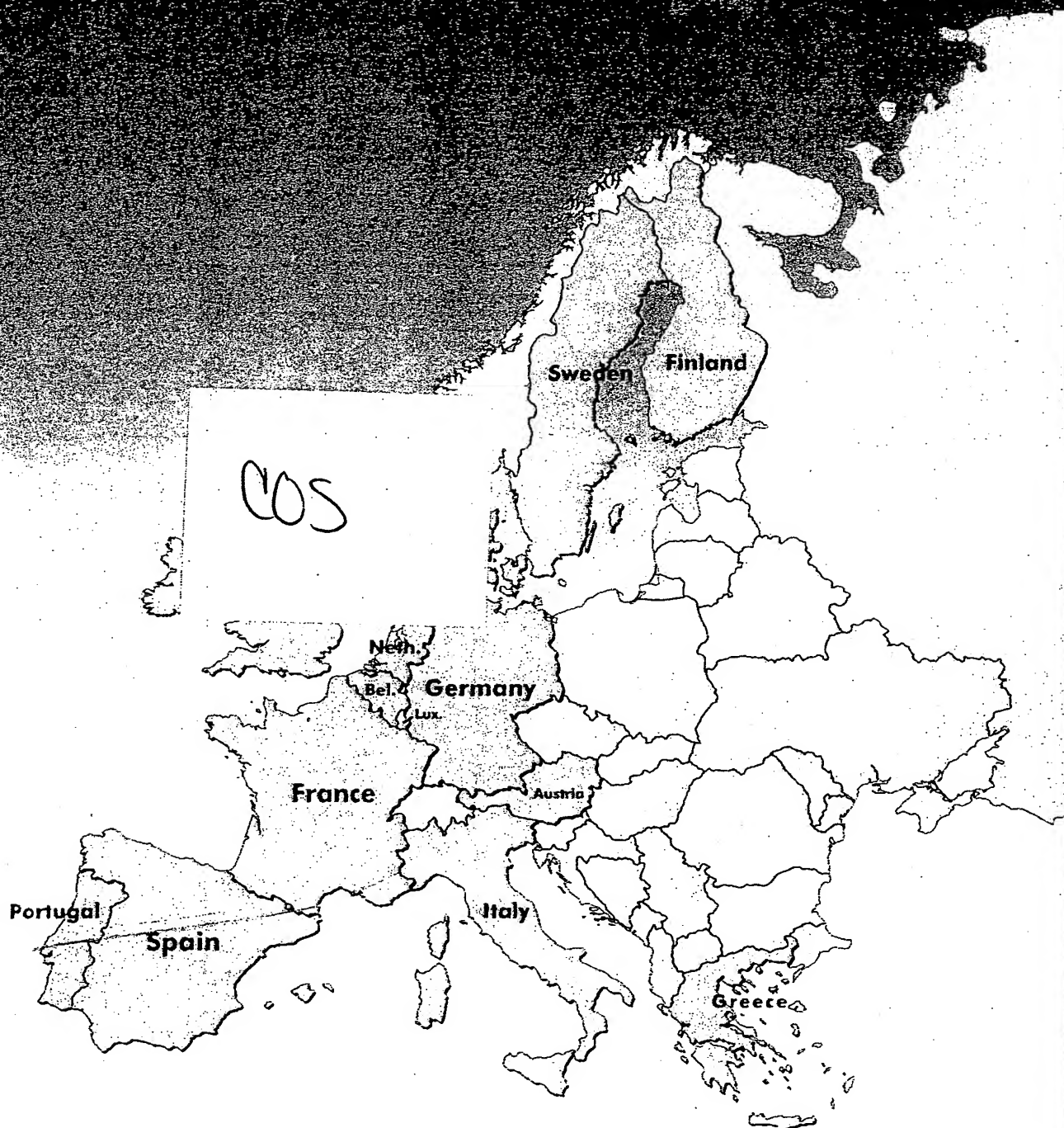


The European Union: An Overview

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The European Union: An Overview

Principal Institutions

The 15-nation European Union (EU) is a unique mix of state-to-state cooperation found in traditional international organizations and supranational authority, particularly in the economic and trade spheres. As a result, the EU neither looks nor behaves like a national government—a source of frustration for foreign governments dealing with it.

US officials deal most often with EU Commission officials—particularly Trade Commissioner Pascal Lamy and External Relations Commissioner Chris Patten.

- **The European Commission:** The EU's executive branch...headed by 20 commissioners, appointed by the member states...implements decisions taken by the European Council and the Council of the European Union...also initiates legislation—including EU regulations binding on member states—for Council and Parliamentary review...takes the lead on internal market and external trade issues as well as other supranational functions...contains the bulk of the EU civil service...represented abroad by delegations that serve as quasi EU-embassies.

The Commission reports to the "Council" of Ministers. High Representative for Common Foreign and Security Policy Javier Solana—a frequent US interlocutor—works for the Council.

- **The Council of the European Union:** Composed of member-state ministers on specific subject areas (that is, economics and finance, agriculture, transport, the environment)...monthly meetings for the most important version: the General Affairs Council of EU foreign ministers...provides specific guidance to the Commission to negotiate on its behalf with foreign partners, especially in the trade arena...increasingly makes decisions by qualified majority vote...countries retain a national veto where core interests are at stake, such as taxes.

EU leaders are like a board of directors.

- **The European Council:** Composed of the heads of state and government of the 15 member states and the European Commission President...typically meets on a quarterly basis...provides overall policy guidance to the EU...makes decisions on contentious issues involving questions of national sovereignty, such as the creation of a defense capability and an EU police agency...negotiates changes to the treaties that define EU institutions and decisionmaking.

The Rotating EU Presidency

Each member state takes the reins for six months and its leader is known as the "EU President." Sweden currently holds the EU presidency and will be followed by Belgium in July. Representatives of the presidency country chair meetings of member states at all levels. When traveling abroad, the EU President often is joined by the European Commission President and the High Representative for Common Foreign and Security Policy—or their stand-ins—in a formation known as a "troika."

The European Parliament is a secondary player in most decisionmaking but its authority and credibility are gradually increasing.

- ***The European Parliament:*** Directly elected, 626 seats...reviews legislation and the budget with the Council...oversees Commission activities, can force it to resign...dual headquarters in Brussels and Strasbourg, France.

EU institutions and decisionmaking are under near-continual reform in treaty revision sessions known as Inter-Governmental Conferences (IGC). The IGC that concluded in December 2000 in Nice, France, provided sufficient reform to allow for enlargement and the resulting Treaty of Nice is due to be ratified by the end of next year. Another IGC is scheduled for 2004.

Council of Europe

The European Union and its councils should not be confused with the Council of Europe, which has the same flag but is otherwise a totally distinct organization. The Council's 43 member states—almost all European countries, including Russia—strive to protect human rights, democracy, and the rule of law. The Council was founded in 1949 and its headquarters is in Strasbourg, France. The US has held observer status at the Council since 1996.

The US-EU Relationship

The United States has supported European integration since the end of World War II because it has assessed that a strong Europe serves US national interests. Today, the US and EU enjoy the largest economic relationship in the world with \$2 trillion in annual trade and investment. In 1995 the United States and EU created a "New Transatlantic Agenda" (NTA) to guide relations in the post-Cold War world. The NTA provides for continuous consultation across a broad range of economic and foreign policy areas, including annual meetings between the US and EU Presidents.

The NTA includes a series of transatlantic dialogues to facilitate people-to-people contacts. The Transatlantic Business Dialogue brings together businesses and governments to look beyond current trade disputes and encourage commercial growth. The Transatlantic Consumer Dialogue is a forum for consumer groups and government officials. Other dialogues address labor issues, information technology, and foreign aid.

The Transatlantic Economic Partnership, begun in 1998, has worked for agreement on standards and regulatory barriers, biotechnology, and food safety.

A Short History

The present-day 15-member EU traces its roots to 1957, when France, West Germany, Italy, Belgium, Luxembourg, and The Netherlands signed the Treaty of Rome which created the European Economic Community. The EEC eliminated barriers to trade in goods and services in the six-country region, and adopted a common external tariff.

- *The six countries launched the EEC after first forming the European Coal and Steel Community in 1951—in part to link their economies closely together and make another war unthinkable. By the end of the Cold War, the EEC had grown to 12 member countries.*

In 1992 the member states signed the Treaty of Maastricht and adopted the name “European Union” to reflect their desire to go well beyond a common market. Maastricht set goals for a common currency (the euro, which debuted as an interbank currency in 1999 and will begin circulating next year), a common foreign and security policy, and cooperation in law enforcement and immigration.

- *In 1995, Austria, Finland, and Sweden joined the EU. The EU subsequently started negotiations to take in the former Warsaw Pact countries in Central and Eastern Europe, plus Slovenia, Cyprus, and Malta.*
- *With British support, the EU in 1998 began to create a defense capability autonomous of NATO that eventually will be available for peacemaking, peacekeeping, and humanitarian operations.*

Enlargement Plans

In 1998 the EU opened accession negotiations with Poland, the Czech Republic, Hungary, Slovenia, Estonia, and Cyprus. Two years later Brussels launched talks with six additional candidate-countries: Bulgaria, Lithuania, Latvia, Malta, Romania, and Slovakia. The EU has offered Turkey "candidacy status," but will not begin formal accession negotiations until Ankara meets criteria on democracy and human rights.

- *Candidate-countries must adopt the 80,000-page body of EU law and regulation to qualify for membership.*
- *Brussels is supplying financial and technical assistance to help get the applicants up to EU standards.*
- *When all 12 countries currently engaged in accession talks enter the EU—most likely by the end of the decade—the EU will be world's largest economy and trading bloc.*

The EU has set June 2004 as the informal deadline to admit new members. Concern among member states about the financial aid institutional impact of enlargement, however, could delay the process or limit the ranks of the next round.

- *There is little public enthusiasm in the EU for enlargement because of the steep costs involved—agricultural subsidies alone would break the bank if extended in their current form to all the new members—and fear of an influx of cheap labor from the east.*

Top 10 Things to Know About the European Union

1. The EU is the prime engine of European integration, promoting since 1957 peaceful relations and economic prosperity among its now 15 member countries.
2. The EU is responsible for managing a common internal market, negotiating foreign trade agreements, and fielding a common currency. The EU promotes cooperation in judicial, police, and immigration affairs.
3. Although the EU is a regional organization, it has global interests and a global reach. Trade and competition policy decisions, in particular, directly impact the United States.
4. The EU has been called an economic giant but a political pygmy—a situation it hopes to change with the development of a robust common foreign policy and a military capability. The EU wants the United States and the rest of the world to regard it as fully equal to the United States.
5. Member states control EU policy in a body known as the European Council. The European Commission, based in Brussels, is the executive agency of the EU and can initiate legislation. The European Parliament reviews legislation and oversees the budget.
6. The EU works primarily by consensus, a time-consuming process, although more decisions are becoming subject to a majority vote. There are longstanding divisions in the EU between small and large states, northern and southern states, and those favoring different degrees of integration—splits that will be accentuated when the EU takes in a dozen new members in the coming decade.
7. Member-state leaders, foreign ministers, and even lower-level officials have much more frequent meetings and dialogue with each other than they do with the United States.
8. The EU is a work in progress whose institutions and decisionmaking procedures are under regular revision, without agreement on the final shape.
9. Europeans and US officials often find the EU difficult to understand and work with because it is a unique international institution, combining characteristics of a nation-state with those of a supranational organization. Critics call it opaque, inefficient, and unaccountable.
10. Member states, represented by Javier Solana, drive foreign and security policy while External Relations Commissioner Patten implements policy, overseeing a \$4.5 billion budget. The EU values cooperation, even with foes, over confrontation.

Top 10 Things to Know About the EU Trade

1. The US and EU enjoy the largest economic relationship in the world.
2. Bilateral trade disputes have proliferated in recent years. The US and EU set up a "Transatlantic Economic Partnership" (TEP) to emphasize cooperation and manage disputes.
3. EU Trade Commissioner Pascal Lamy is the key trade official for the EU, which negotiates as one on the world stage, but he must submit all proposals to the member states, which retain ultimate control over the direction of trade policy.
4. The European Union accounts for 39 percent of world exports and 37 percent of world imports, including intra-EU trade, compared to 12 percent of world exports and 18 percent of world imports for the US.
5. EU trade policy supports the use of free trade and customs agreements to gain markets for European firms; around one-third of total world exports in 1999 were covered by such EU accords compared to 11 percent for US FTAs.
6. The EU strongly favors a comprehensive WTO round that would include investment, competition, environment and other topics.
7. The EU supports its politically-sensitive agriculture sector through subsidies and other means.
8. European food scares, notably mad cow disease, have damaged public trust in government and science, pushed EU governments to ban products based on public concerns rather than scientific evidence, and prompted plans for a European Food Authority.
9. US and EU CEO's work together in the Transatlantic Business Dialogue to encourage commercial growth.
10. EU applicant countries' potentially high agricultural subsidy claims will put pressure on the EU to reform its Common Agricultural Policy, which takes up 45 percent of the EU budget and provides incentives to overproduce.

European Commission: 2000-2005



Romano Prodi
Italian
PRESIDENT



Christopher Patten
British
External Relations



Pascal Lamy
French
Trade



Franz Fischler
Austrian
Agriculture



Mario Monti
Italian
Competition



**Loyola de Palacio
del Valle-Lersundi**
Spanish
VICE-PRESIDENT
Transportation and Energy



David Byrne
Irish
**Health and
Consumer Protection**



Margot Wallström
Swedish
Environment



Günter Verheugen
German
Enlargement



Erkki Liikanen
Finnish
**Enterprise and the
Information Society**



Pedro Solbes
Spanish
**Economic and
Monetary Affairs**



**Anna
Diamantopoulou**
Greek
**Employment and
Social Affairs**



Antonio Vitorino
Portuguese
Justice and Home Affairs



Frederik Bolkestein
Dutch
Internal Market



Poul Nielson
Danish
**Development and
Humanitarian Aid**



Philippe Busquin
Belgian
Research



Michel Barnier
French
Regional Policy



Neil Kinnock
British
**VICE-PRESIDENT,
Administration**



Michaelle Schreyer
German
Budget

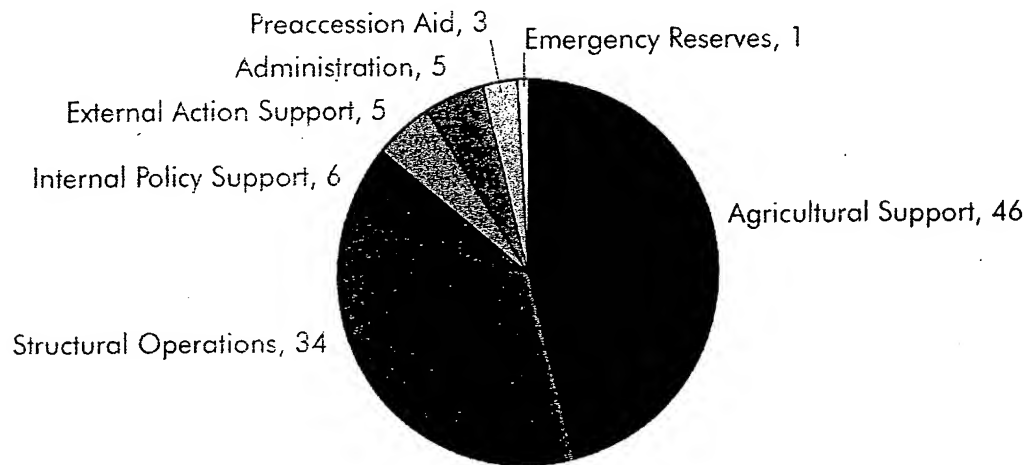


Viviane Reding
Luxembourger
**Education and
Culture**

Source: European Commission

The EU's 2001 Budget

Percent



Billions of US \$

Agricultural Support	40.1
Common Agricultural Policy Programs	36.0
Rural Development Assistance	4.1
Structural Operations	29.8
Structural Funds	27.3
Cohesion Fund and EEA Financial Mechanism	2.5
Internal Policy Support (Transport, Education, Energy, Environment, R&D)	5.6
Research and Technological Development	3.6
Training, Youth Culture, Audiovisual Media, Information, and Employment Support	0.8
Trans-European Networks	0.6
Internal Market and Industry	0.1
Environment, Consumer Policy, and Consumer Health Protection	0.1
External Action Support (Humanitarian Aid, Regional Aid, Foreign & Security)	4.5
Cooperation with Mediterranean Nonmember Countries and Middle East	0.9
Humanitarian and Food Aid, Support Operations, and European Development Fund	0.8
Cooperation with Developing Countries in Asia, Latin America, and South Africa	0.8
Cooperation with Balkan Countries	0.7
Cooperation with Central and East Europe, New Independent Countries, Mongolia	0.4
Other Cooperation Measures	0.4
International Fisheries Agreements and External Aspects of Community Policies	0.3
Administration (Including Pensions)	4.4
PreAccession Aid to Candidate Countries	3.0
Monetary, Guarantee, and Emergency Aid Reserves	0.8
TOTAL EXPENDITURES	88.2



Economic and Monetary Union Membership

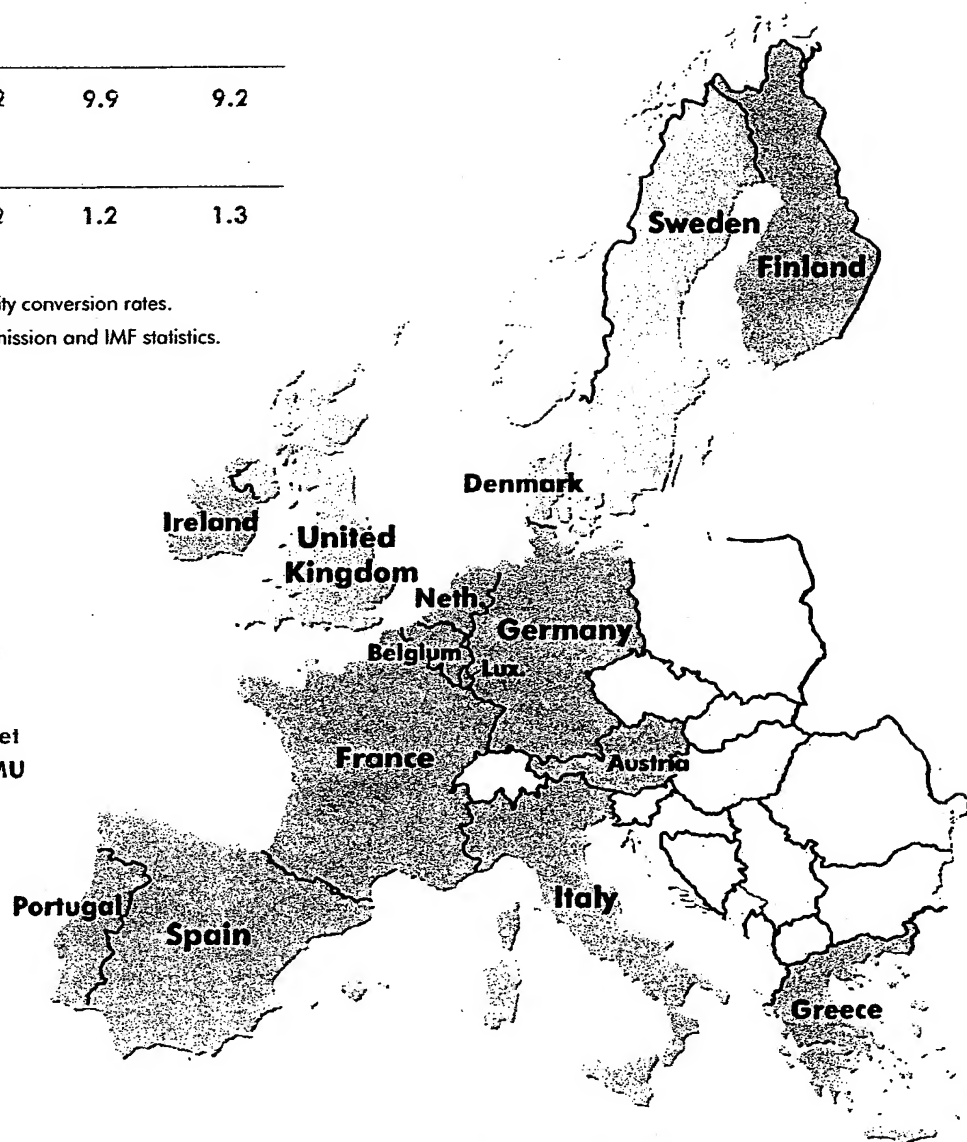
Comparing EMU to the United States

	US	EMU-12	EU-15
GDP^a (trillion US \$)	9.3	6.4	8.0
General government gross debt^b (as a percentage of GDP)	39.9	72.0	67.5
Unemployment rates^b (percent)	4.2	9.9	9.2
Inflation^b (percent)	2.2	1.2	1.3

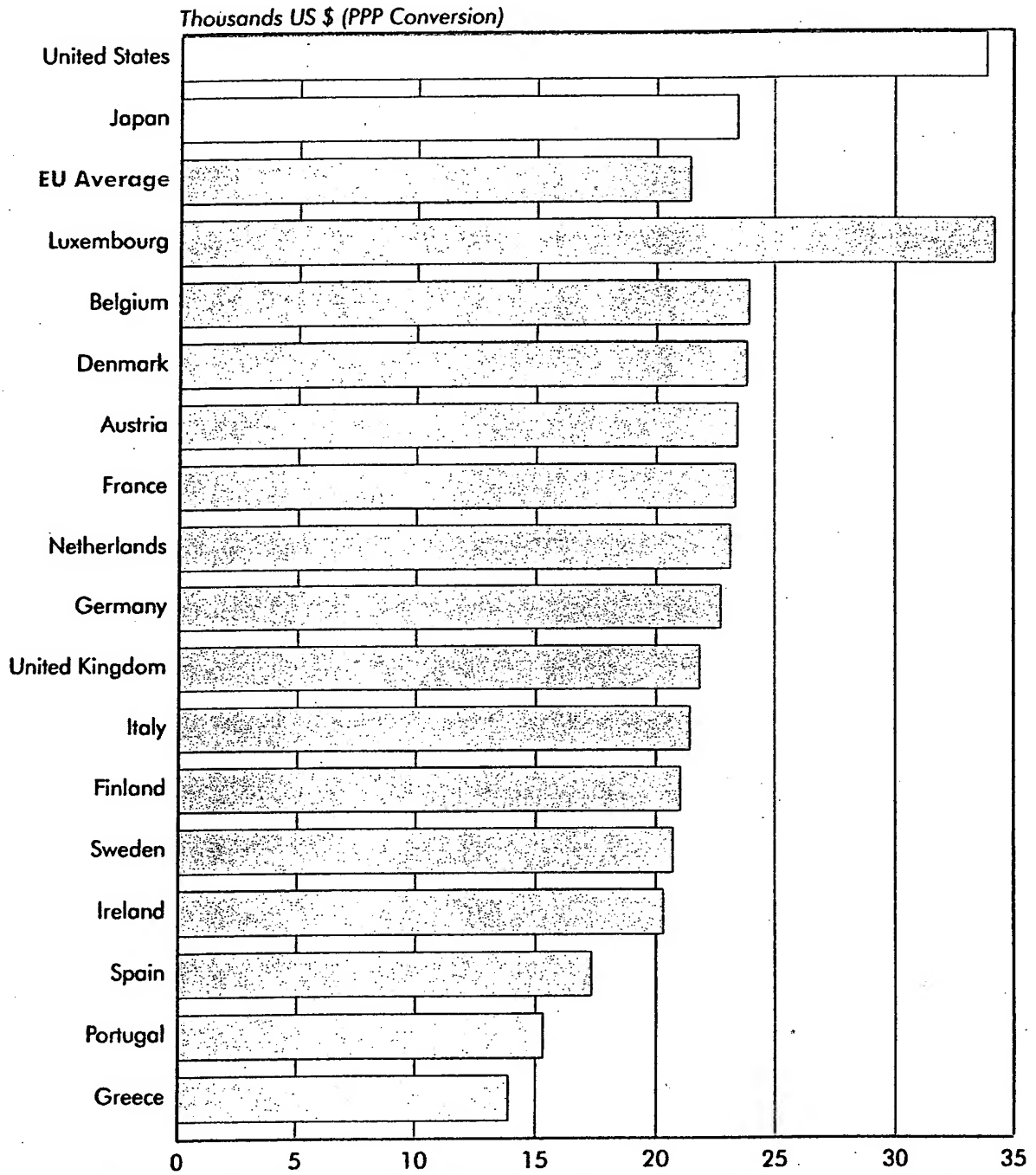
^aBased on purchasing power parity conversion rates.

^bBased on 1999 European Commission and IMF statistics.

-  EMU Members
-  EU Members not yet participating in EMU



GDP Per Capita: 1999

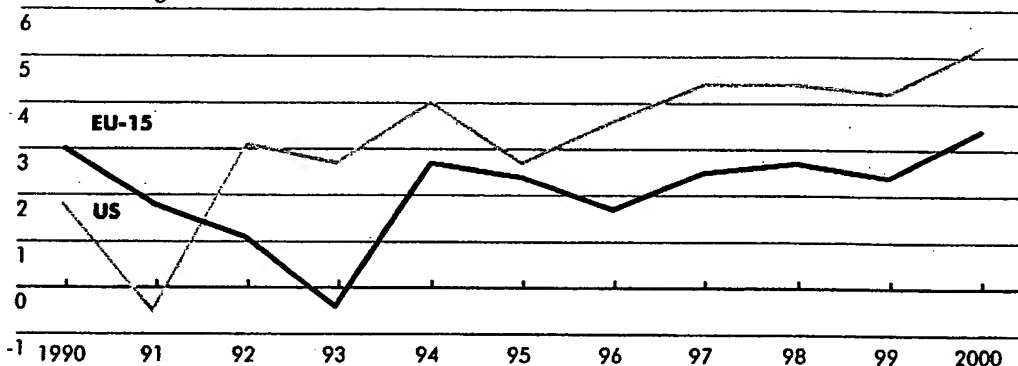


GDP Growth, Unemployment, and Inflation: 1990-2000

Real GDP Growth

European Union growth has lagged behind the US for almost a decade ...

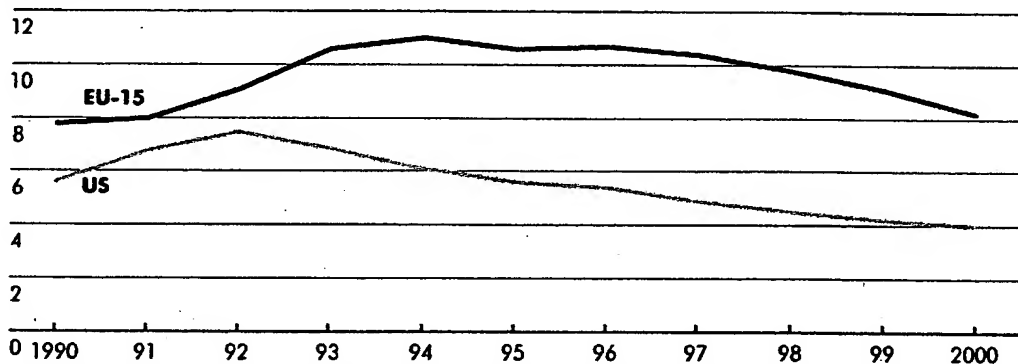
Percent change



Unemployment Rate

... and unemployment, though declining, still exceeds US levels ...

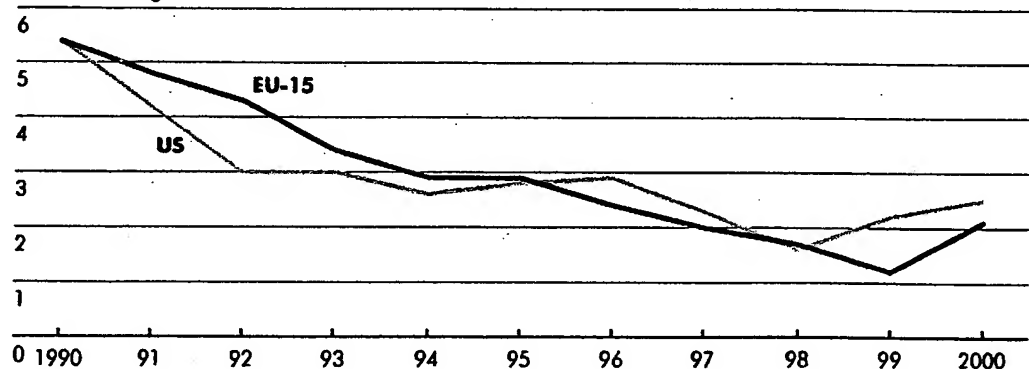
Percent labor force



Consumer Price Inflation

... but EU inflation has steadily declined, and is now less than in the US.

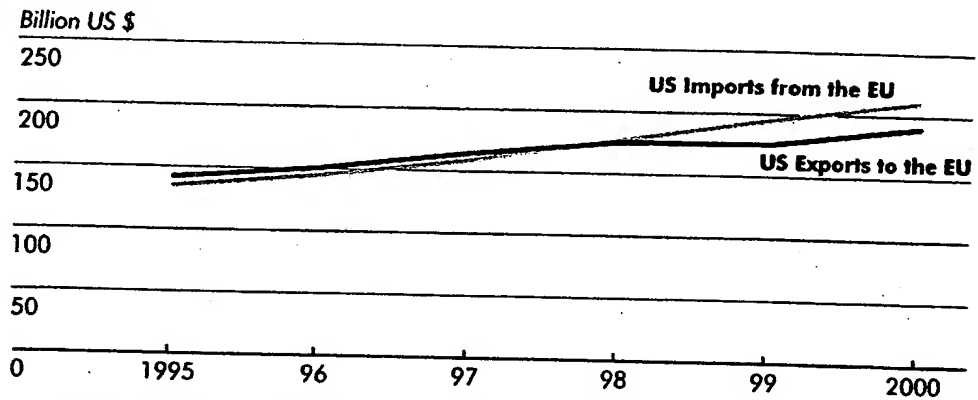
Percent change



Transatlantic Ties

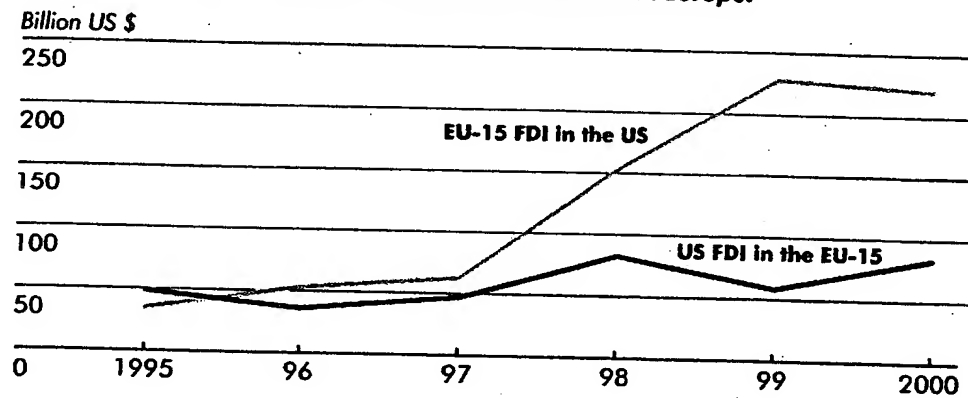
US Commodity Trade with the European Union, 1995-2000

The US and EU have roughly balanced trade ...



Transatlantic Foreign Direct Investment: Capital Flows, 1995-2000

... But EU FDI into the US now dwarfs US investment in Europe.

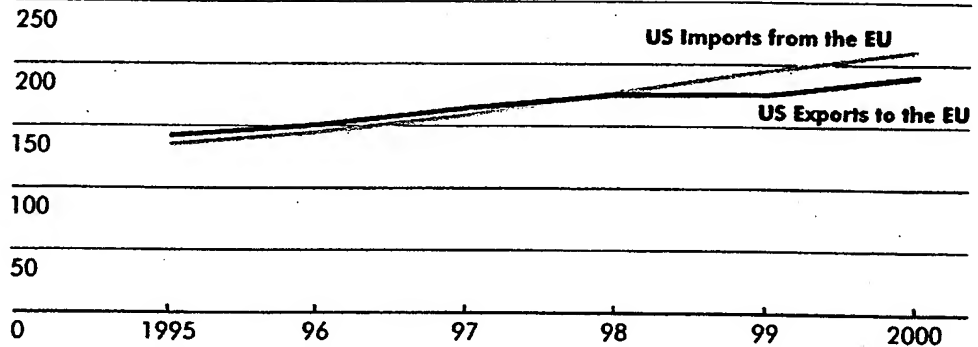


Transatlantic Ties

US Commodity Trade with the European Union, 1995-2000

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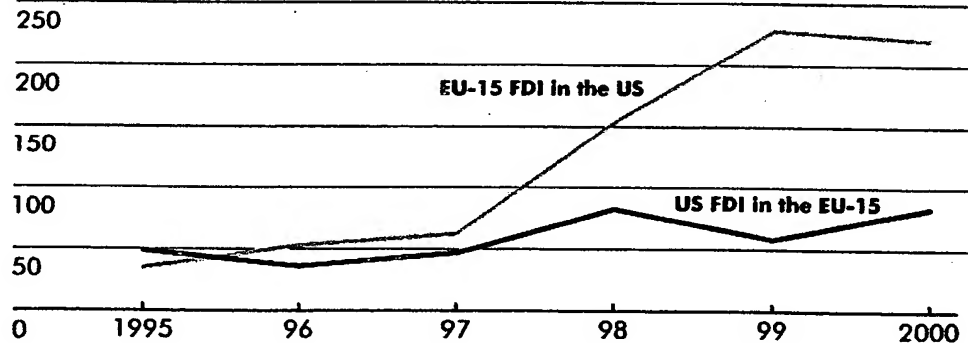
Billion US \$



Transatlantic Foreign Direct Investment: Capital Flows, 1995-2000

. . . But EU FDI into the US now dwarfs US investment in Europe.

Billion US \$

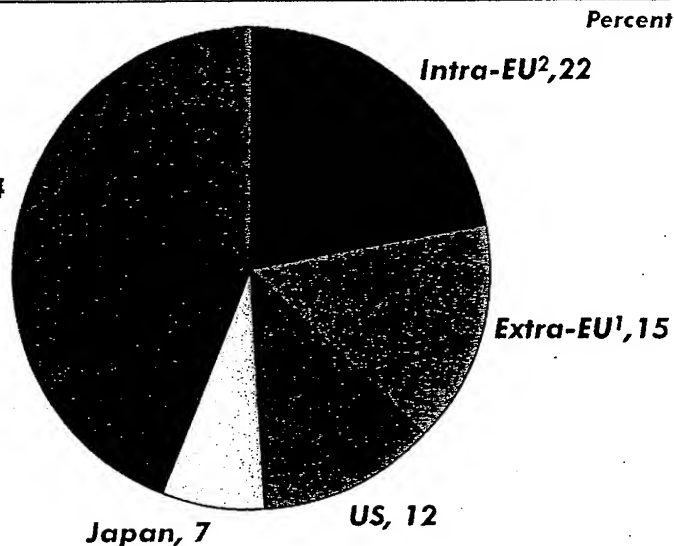


The EU's Role in World Trade: 2000

World Exports by Region of Origination, 2000

The EU and United States export roughly the same percentage to the world . . .

Rest of World, 44

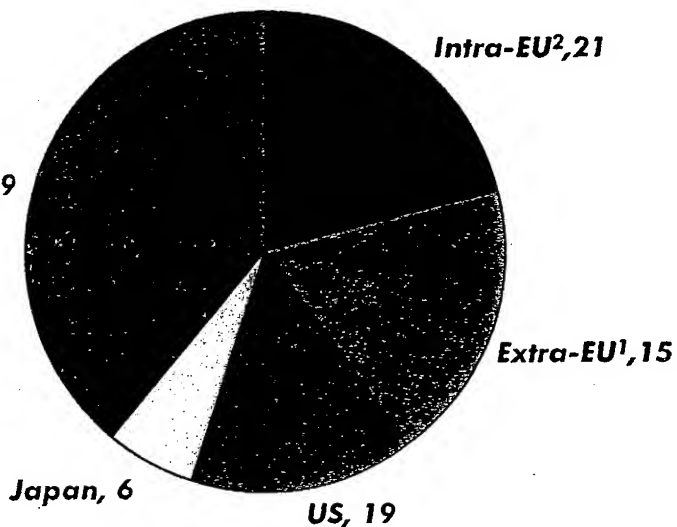


Total: \$6 trillion³

World Imports by Region of Destination, 2000

. . . and import about the same amount, excluding EU member states trade with each other.

Rest of World, 39






Total: \$6.3 trillion³

¹ Extra-EU trade consists of EU members' trade with countries not members of the EU.

² Intra-EU trade consists of EU members' trade with other EU members.

³ The difference between world export and import totals reflects the inclusion of shipping and insurance in the import figures.

European Union Members and Aspirants

-  EU Country
-  Candidate country that is engaged in EU accession negotiations
-  Candidate country that has not yet opened accession negotiations



* The Former Yugoslav Republic of Macedonia.

Comparative Statistics for the EU and Candidate Countries

	Population (in millions)	Per Capita GDP (in US \$)	Total GDP (billions US \$)	Share of Imports from EU Countries in Total Imports (percentage)	Share of Exports to EU Countries in Total Exports (percentage)	Agricultural Work Force (percentage of total)
EU-15 Total	375.8	18,998	7445.4	60	62	5
Candidate Country Total	105.9	7,360	325.0	62	68	N/A
Poland	38.7	7,416	133.8	63	64	26
Romania	22.4	5,071	29.7	53	57	28
Czech Republic	10.3	10,884	45.3	62	60	7
Hungary	10.1	9,553	42.5	64	76	8
Bulgaria	8.3	4,481	10.7	46	53	18
Slovakia	5.4	8,650	16.1	40	45	9
Lithuania	3.7	5,497	9.0	44	48	20
Latvia	2.4	5,470	5.7	56	65	16
Slovenia	2.0	13,333	17.1	69	66	2
Estonia	1.4	6,484	4.2	65	75	11
Cyprus	0.8	15,392	7.8	54	43	9
Malta	0.4	11,960	3.1	66	49	2

European Integration: 1951-2010

1951: European Coal and Steel Community

1957: Treaty of Rome creates six-country European Economic Community

1968: Customs union and common external tariff completed

1973: Denmark, Ireland, and United Kingdom join

1980s: Greece, Portugal, and Spain join after casting off authoritarian regimes

1987: Single European Act eliminates nontariff trade barriers in the internal market

1992: Maastricht Treaty creates the European Union

1995: Austria, Finland, and Sweden join

Mid-1990s: Former Warsaw Pact countries, Cyprus, Malta, and Turkey apply for EU membership

1999: The euro becomes common interbank currency for 11 of the 15 EU members

2000: Treaty of Nice provides institutional reforms necessary for enlargement.

2002: Euro bills and coins circulate in 12 EU countries.

2000-10: Enlargement to as many as 27 countries, further institutional reform, and development of an autonomous defense capability.